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INFO RUEHBJ/AMEMBASSY BEIJING PRIORITY 6649
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RUEHJA/AMEMBASSY JAKARTA PRIORITY 4396
RUEHKL/AMEMBASSY KUALA LUMPUR PRIORITY 1912
RUEHME/AMEMBASSY MEXICO PRIORITY 0559
RUEHOT/AMEMBASSY OTTAWA PRIORITY 9750
RUEHUL/AMEMBASSY SEOUL PRIORITY 2645
RUEHGP/AMEMBASSY SINGAPORE PRIORITY 7278
RUEHFK/AMCONSUL FUKUOKA PRIORITY 1242
RUEHHK/AMCONSUL HONG KONG PRIORITY 6639
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RUEHOK/AMCONSUL OSAKA KOBE PRIORITY 5033
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SUBJECT: JAPAN SEES DRAMATIC DOWNTURN IN OCTOBER EXPORT DATA

Summary

11. (SBU) Reflecting reduced demand for Japan's key exports in the global economic slowdown, Japanese goods exports fell in October, according to Ministry of Finance trade data released November 20. Exports were down 7.7 percent year-on-year, with the largest declines in automobiles, semiconductors, and chemicals. Concurrently, imports were up 7.4 percent, primarily the result of higher year-on-year oil prices, and resulting in a JPY 63.9 billion (approx. US\$670 million, at US\$1=JPY95) trade deficit for the month. Japan's August deficit of JPY 332 billion (US\$3.5 billion) was the first non-January monthly deficit in 26 years, and this latest deficit is Japan's first October deficit in 28 years. End summary.

Sectoral Components

12. (U) Japan's most important export sectors saw the greatest losses in October. Transportation equipment (autos), electrical machinery, and chemicals collectively represent more than half (52.5 percent) of all Japanese exports, and each category saw double-digit declines. These three categories together contributed 88 percent of the overall decline in exports for the month. Iron and steel product exports, on the other hand, saw a 22 percent increase.

13. (U) Dependent on foreign sources for roughly 96 percent of its energy needs, Japan's trade balance has been affected dramatically by rising commodity prices. Slightly over one third of all Japanese imports consist of mineral fuels, with petroleum constituting roughly 19 percent total imports. Interestingly, while the GOJ has often raised concerns about food security in a trade policy context, Japan imports approximately 60 percent of the food it needs, and the value of imported foodstuffs are only 23 percent of what Japan spends to import mineral fuel. Japan is highly dependent on

these and other imported commodities, and their higher prices have driven up Japanese imports, as measured by value, while imports of manufactured goods have fallen.

Select Sectoral Data Highlights:

Category	Value (JPY 100 bil)	Change (y-on-y, pct)	Share of Total (percent)
Exports			
Total	6,926	-7.7	100
Transport Equipment	1,668	-13.1	24.1
- Motor Vehicles	1,137	-15.0	16.4
Electrical Machinery	1,378	-10.6	19.9
- Semiconductors	405	-12.6	5.9
Chemicals	595	-14.4	8.5
Iron and Steel Products	420	22.5	6.1
Imports			
Total	6,990	7.4	100
Mineral Fuels	2,411	34.2	34.5
- Petroleum	1,333	23.7	19.1
Foodstuffs	563	9.4	8.1
Electrical Machinery	740	-10.1	10.6
Transport Equipment	159	-35.2	2.3

Geographic Components

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14. (U) Japan still enjoyed substantial trade surpluses with North America, Asia, and Western Europe, but deficits with the Middle East and Australia were sufficient to push Japan's overall trade into deficit.

15. (U) With North America, trade in both directions fell, although Japanese imports from Canada grew. Overall, Japan still registered a JPY 506 billion (US\$5.3 billion) surplus with North America. Exports and imports to/from the U.S. fell by 19 and 11 percent, respectively. Japan also saw exports and imports with Western Europe fall at comparable rates, leaving Japan's net surplus with Europe at JPY 296 billion (US\$3.1 billion).

16. (U) In Asia, trade with China (PRC and HKG aggregated) represented roughly 46 percent of Japan's total two-way trade, and Japan enjoyed a small net surplus of roughly JPY 90 billion (US\$950 million). Japan ran a modest surplus with East Asia, reflecting surpluses and larger trade volumes with partners like Korea, Taiwan, and Singapore, which outweighed deficits with other regional trading partners such as Indonesia and Malaysia. A decline of 4.0 percent in exports to Asia was led by double-digit falls with Korea, Taiwan and Hong Kong. A 5.1 percent increase in imports was driven by a 2.9 percent increase from China and nearly 50 percent increases from both India and Vietnam.

17. (U) In other regions, Japan's net deficit with the Middle East topped JPY 1.13 trillion (US\$11.8 billion), as the October price of oil was reportedly 34 percent higher than a year earlier. Japan's imports from Australia also shot up 49 percent to JPY 477 billion (US\$5 billion), passing Saudi Arabia and making Australia Japan's third largest source of imports after China and the U.S.

Select Geographic Data Highlights:

Partner	Exports (Value JPY 100 bil)	Imports (y-on-y percent change)
North America	1,319 (-18.2)	813 (-7.2)
- USA	1,214 (-19.0)	695 (-11.1)
- Canada	104 (-8.0)	118 (24.9)

Western Europe	942 (-17.0)	646 (-10.9)
Asia	3,392 (-4.0)	2,943 (5.1)
- China	1,161 (-0.9)	1,389 (2.9)
- Hong Kong	332 (-13.7)	13 (-26.4)
- Taiwan	369 (-10.9)	203 (1.7)
- South Korea	504 (-11.0)	262 (-7.4)
Middle East	329 (11.3)	1,454 (24.3)
Australia	153 (-5.5)	477 (49.2)

Comment

18. (SBU) It would be premature, based on the one month's figures, to draw conclusions about changes to the structure of Japan's trade balance. However, Japan is relatively sensitive to both the downturn in demand in its key sectors and to high commodity prices. Already entering a recession before the current international economic turmoil, and unable to rely on exports to drive growth, Japan is caught in a tight spot that could increase public demand for economic leadership and put pressure on the government and political parties. Unfortunately, Japan's domestic political situation has delayed the government's ability to push through a second stimulus package, and its large debt may limit the size of any future fiscal stimulus measures. End comment.
SCHIEFFER